

STATE OF SOUTH CAROLINA

(Caption of Case)

Application of Southland Utilities, Inc. for adjustment
of rates and charges for the provision of water
service.

BEFORE THE
PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA

COVER SHEET

DOCKET
NUMBER: 2007 - 244

(Please type or print)

Submitted by: Benjamin P. Mustian

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DOCKETING INFORMATION (Check all that apply)

☐ Emergency Relief demanded in petition☐ Request for item to be placed on Commission's Agenda expeditiously☐ Other:

INDUSTRY (Check one)

NATURE OF ACTION (Check all that apply)

- ☐ Electric
☐ Electric/Gas
☐ Electric/Telecommunications
☐ Electric/Water
☐ Electric/Water/Telecom.
☐ Electric/Water/Sewer
☐ Gas
☐ Railroad
☐ Sewer
☐ Telecommunications
☐ Transportation
☒ Water
☐ Water/Sewer
☐ Administrative Matter
☐ Other: _____

- ☐ Affidavit
☐ Agreement
☐ Answer
☐ Appellate Review
☐ Application
☐ Brief
☐ Certificate
☐ Comments
☐ Complaint
☐ Consent Order
☐ Discovery
☐ Exhibit
☐ Expedited Consideration
☐ Interconnection Agreement
☐ Interconnection Amendment
☐ Late-Filed Exhibit
☐ Letter
☐ Memorandum
☐ Motion
☐ Objection
☐ Petition
☐ Petition for Reconsideration
☐ Petition for Rulemaking
☐ Petition for Rule to Show Cause
☐ Petition to Intervene
☐ Petition to Intervene Out of Time
☒ Prefiled Testimony
☐ Promotion
☐ Proposed Order
☐ Protest
☐ Publisher's Affidavit
☐ Report
☐ Request
☐ Request for Certification
☐ Request for Investigation
☐ Resale Agreement
☐ Resale Amendment
☐ Reservation Letter
☐ Response
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☐ Return to Petition
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☐ Subpoena
☐ Tariff
☐ Other: _____

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September 14, 2007

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VIA HAND-DELIVERY

The Honorable Charles L.A. Terreni
Chief Clerk/Administrator
Public Service Commission of South Carolina
101 Executive Center Drive
Columbia, South Carolina 29210

RE: Application of Southland Utilities, Inc. for adjustment of rates and charges for the provision of water service; Docket No. 2007-244-W

Dear Mr. Terreni:

Enclosed for filing are the original and twenty-five (25) copies of each of the following documents in the above-referenced docket:

1. Direct Testimony of Bruce T. Haas
2. Direct Testimony of Lena Georgiev
3. Direct Testimony and supporting exhibits of Pauline M. Ahern

By copy of this letter, I am serving a copy of these documents upon all parties of record and enclose a Certificate of Service to that effect. I would appreciate your acknowledging receipt of these documents by date-stamping the extra copies that are enclosed and returning them to me via our courier.

If you have any questions or if you need any additional information, please do not hesitate to contact us.

Sincerely,

WILLOUGHBY & HOEFER, P.A.



Benjamin P. Mustian

BPM/twb
Enclosures

cc: Nanette S. Edwards, Esquire
Shealy B. Reibold, Esquire

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BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2007-244-W

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IN RE:)
)
Application of Southland Utilities, Inc.)
for adjustment of rates and charges)
for the provision of water service.)
_____)

CERTIFICATE OF SERVICE

This is to certify that I have caused to be served this day one (1) copy of **Direct Testimony of Bruce T. Haas, Direct Testimony of Lena Georgiev, and Direct Testimony and supporting exhibits of Pauline M. Ahern** by placing same in the care and custody of the United States Postal Service with first class postage affixed thereto and addressed as follows:

Nanette S. Edwards, Esquire
Shealy B. Reibold, Esquire
South Carolina Office of Regulatory Staff
Post Office Box 11263
Columbia, South Carolina 29211



Tracy W. Barnes

Columbia, South Carolina
This 14th day of September, 2007.

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2007-244-W

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SC PUBLIC SERVICE COMMISSION
DOCKET NO. 2007-244-W

IN RE:)
)
Application of Southland Utilities, Inc.)
for adjustment of rates and charges)
for the provision of water service.)
_____)

DIRECT TESTIMONY
OF
LENA GEORGIEV

1 **Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS**
2 **FOR THE RECORD.**

3 **A.**My name is Lena Georgiev. I am employed as a Senior Regulatory Accountant at
4 Utilities, Inc., 2335 Sanders Road, Northbrook, Illinois 60062.

5 **Q. WHAT IS YOUR PROFESSIONAL BACKGROUND?**

6 **A.**I have been employed by Utilities, Inc. since January of 2006. Since that time I
7 have been involved in several phases of rate-making in many regulatory jurisdictions. I
8 graduated from University of Illinois at Chicago in 2000, and I am a Certified Public
9 Accountant. I had four years of public accounting/auditing experience prior to joining
10 Utilities, Inc., am a member of the Illinois CPA Society and have successfully completed
11 the utility regulation seminar sponsored by NARUC.

12 **Q. PLEASE EXPLAIN YOUR JOB RESPONSIBILITIES AT UTILITIES, INC.**

1 A. My responsibilities include: financial analysis of individual subsidiaries of
2 Utilities, Inc., preparation of rate applications, facilitation of regulatory audits, and the
3 submission of testimony and exhibits to support rate applications.

4 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

5 A. The purpose of my testimony is to sponsor the Application of Southland Utilities,
6 Inc. ("Application") for an increase in its rates for water and sewer services provided to
7 its service area in South Carolina, which was filed with the Commission on June 25,
8 2007.

9 **Q. PLEASE DESCRIBE SOUTHLAND UTILITIES, INC.**

10 A. Southland Utilities, Inc. ("Southland" or "Company") is a wholly owned
11 subsidiary of Utilities, Inc. ("UI"). Southland was incorporated on November 19, 1976
12 for the purpose of owning and operating water utility systems and, as of December 31,
13 2006, Southland serves 175 water customers in the Creekwood and Cedarwood
14 subdivisions in Lexington County. Southland maintains an operations and customer
15 service office in West Columbia, South Carolina. Customer payments, meter readings
16 and service orders are processed from this office. Administrative functions such as
17 regulatory services, management, accounting, human resources and data processing are
18 performed from the UI office in Northbrook, Illinois.

19 **Q. PLEASE DESCRIBE UI.**

20 A. UI is unique within the water and sewer industry in many respects. From its
21 inception almost 40 years ago, UI has concentrated on the purchase, formation and
22 expansion of smaller water and/or sewer utility systems. Often, these types of systems

1 have experienced operational or financial difficulties or a combination of both. At the
2 present time, UI has over 90 systems that provide service to approximately 300,000
3 customers in 17 states.

4 **Q. DO SOUTHLAND CUSTOMERS BENEFIT FROM THE COMPANY'S**
5 **AFFILIATION WITH UI?**

6 **A.** Yes. The affiliation with UI has many benefits for Southland customers. One of
7 the primary benefits is Southland's access to a large pool of human resources from which
8 to draw upon. There are experts in various critical areas, such as construction,
9 engineering operations, accounting, data processing, billing, regulation, customer service,
10 etc. This combined expertise and level of experience is not available in a more cost
11 effective manner elsewhere.

12 Given UI's focus on water and sewer systems only, its personnel have the ability
13 to meet the challenges of this rapidly changing industry. Because of this focus, our
14 companies enjoy some unique advantages, one of which is that capital is available for
15 improvements and expansion at a reasonable cost. With increasingly more stringent
16 health and environmental standards, ready access to capital will prove vital to continued
17 quality service in the water and sewer utility business.

18 In addition, the UI group of companies has national purchasing power that results
19 in lower costs to rate payers. Expenditures for insurance, vehicles, chemicals and meters
20 are a few examples of purchases where national contracts provide tangible benefits to
21 rate-payers.

22 **Q. WHY IS SOUTHLAND REQUESTING RATE RELIEF AT THIS TIME?**

1 **A.** Under present rates, Southland is not able to meet its operating costs and earn a
2 reasonable return on its investment in the Southland system. It has been over sixteen (16)
3 years since the Company last applied for rate relief. As reflected in its application for the
4 test year ended December 31, 2006, Southland's return on its rate base was 1.41% and
5 the corresponding return on equity is (6.33%). This return on equity is well below the
6 Company's cost of equity as the Commission will hear from the Company's witness, Ms.
7 Ahern, is 11.60-12.20%. In addition, as time passes, the need for rate relief will increase.
8 Without satisfactory rate relief, Southland's ability to continue to provide safe, reliable
9 and efficient water and sewer utility services to its customers will be placed in jeopardy,
10 and Southland will be unable to meet its financial obligations. In addition, capital will
11 become more costly.

12 **Q. PLEASE DESCRIBE THE COMPANY'S APPLICATION.**

13 **A.** In addition to the proposed rate schedule, the Application contains financial
14 statements consisting of a balance sheet, income statements, rate base and rate of return
15 calculation, a test year revenue calculation under current rates, a revenue calculation
16 under proposed rates, and a schedule of current and projected customers. Also included
17 are the most recent approval letters from DHEC and a sample customer bill form.

18 **Q. THE APPLICATION ALSO SEEKS APPROVAL FOR A MODIFICATION FOR**
19 **CERTAIN TERMS AND CONDITIONS OF PROVIDING THESE SERVICES,**
20 **DOES IT NOT?**

21 **A.** Yes, but Mr. Haas will present testimony supporting the Company's request in
22 that regard.

1 **Q. WOULD YOU PLEASE SUMMARIZE THE PROPOSED RATE CHANGES IN**
2 **THE COMPANY’S WATER RATE SCHEDULE?**

3 **A.** Exhibit A of the Application contains the Company’s Schedule of Proposed
4 Water Rates and Charges. The Company has proposed to increase the water customers
5 Residential Base Facility Charge and the Commercial Base Facility Charge from the
6 current charge of \$7.00 per month to \$21.79 per month and the Commodity Charge from
7 \$2.60 per 1,000 gallons or 134 cubic feet (“cft”) to \$8.09 per 1,000 gallons or 134 cft.

8 **Q. WERE THE FINANCIAL SCHEDULES ATTACHED TO THE APPLICATION**
9 **PREPARED BY YOU OR UNDER YOUR DIRECTION?**

10 **A.** Yes, the schedules attached to the General Rate Case Application were prepared
11 by me and are attached as Exhibit B to the application.

12 **Q. PLEASE DESCRIBE THESE SCHEDULES.**

13 **A.** The Financial Statements and related schedules submitted with the application
14 consist of a Balance Sheet, Income Statement, Rate Base and Rate of Return,
15 Consumption Analysis under Present rates and Consumption Analysis under Proposed
16 rates. The test year chosen is the year ended December 31, 2006 which was the most
17 recent twelve-month period available at the time of the Company’s filing.

18 Schedule A is the Balance Sheet as of December 31, 2006. At the end of the test
19 year, Southland had assets of approximately \$357,000. This includes over \$295,000 of
20 Net Utility Plant.

21 Schedule B is the Income Statement for the test year and is comprised of two
22 pages. Page 1 is the Income Statement for Water Operations and page 2 is a list of brief

1 explanations for the pro forma adjustments made to the various income statement
2 accounts. With the pro forma adjustments proposed in Schedule B and in my testimony,
3 the Company's operating expenses have increased \$71,000, or 160%, since its last rate
4 case. The increase in expenses contributes to the Company's need for rate relief.

5 Schedule C is the Rate Base and Rate of Return Statement and is comprised of
6 two pages. Page 1 is the Rate Base and Rate of Return Statement for Water Operations,
7 and page 2 is Explanation of Adjustments to Rate Base and Rate of Return.

8 Schedule D is the Consumption Analysis under Present rates, Schedule E is the
9 calculation of revenues under Proposed Rates, and Schedule F demonstrates Southland's
10 current and projected customers.

11 **Q. WOULD YOU PLEASE PROVIDE A BRIEF EXPLANATION OF THE PRO**
12 **FORMA ADJUSTMENTS INCLUDED ON SCHEDULE B?**

13 **A.** Uncollectible accounts were adjusted based on the proposed increase in revenues
14 and water revenues have been adjusted to tie to test year consumption data at test year
15 rates. Operator and Office salaries were annualized as of December 31, 2006 and have
16 been adjusted to reflect a 4% raise increase. Pension & Other Benefits were annualized to
17 match end of test year salaries and wages. Regulatory Commission Expense has been
18 adjusted to reflect the cost of the current proceeding over a three year period.
19 Depreciation and amortization expense was adjusted to reflect the annualized
20 depreciation expense on end of test year plant as well as pro forma additions to plant.
21 Amortization of Contributions in Aid of Construction ("CIAC") was adjusted to reflect
22 the annualized amortization of CIAC. Taxes other than income have been adjusted for

1 changes in the payroll taxes based on current tax rates and annualized salary figures as
2 discussed above. Gross receipts tax and utility commission tax were also adjusted to
3 account for the proposed increase. Income taxes are computed on taxable income at
4 current rates (35% for federal and 5% for state). AFUDC has been eliminated for
5 ratemaking purposes. Interest Expense was synchronized using the capital structure of
6 the consolidated Utilities, Inc. group of companies, consisting of a debt / equity ratio of
7 59.94% / 40.90% and an embedded cost debt of 6.58%. Certain operation and
8 maintenance expenses were increased by the Consumer Price Index for anticipated
9 changes after the test year. Finally, certain expenses relating to fines and penalties have
10 been removed for the purposes of this rate filing.

11 **Q. WHAT IS CONTAINED IN SCHEDULE C?**

12 **A.** Schedule C is the Rate Base and Rate of Return Statement. As of December 31,
13 2006, Southland has a rate base of \$154,252. As indicated on page 1 of Schedule C,
14 Southland earned a 1.41% return on rate base during the test year. This is well below the
15 Company's cost of capital.

16 **Q. WHAT PRO FORMA ADJUSTMENTS ARE REFLECTED ON SCHEDULE C?**

17 **A.** Working capital has been calculated at 1/8 of the test year's operating expenses.
18 A pro forma adjustment is made to working capital to match the pro forma operating
19 expenses. A pro forma adjustment has been made to include actual and estimated
20 capitalized time. A pro forma adjustment has been made to include pro forma plant.
21 Accumulated depreciation has been adjusted to account for general ledger additions,
22 capitalized time additions and pro forma plant additions and retirements.

1 **Q. WHAT RATEMAKING METHODOLOGY DOES THE COMPANY PROPOSE**
2 **THAT THE COMMISSION EMPLOY IN THIS CASE?**

3 **A.** The Company proposes that its rates be determined utilizing the rate of return on
4 rate base methodology.

5 **Q. WHY HAS THE COMPANY REQUESTED THAT THE COMMISSION**
6 **DETERMINE THE REVENUE REQUIREMENT IN THIS PROCEEDING**
7 **USING THE RATE OF RETURN ON RATE BASE METHODOLOGY?**

8 **A.** Heretofore, Southland's rates were set by the Commission using a variation of the
9 operating ratio approach. In its Order Number 91-221, issued March 18, 1991 in Docket
10 Number 90-551-W, the Commission determined that it would use the operating ratio
11 and/or operating margin as guides in determining just and reasonable rates. The
12 Commission described operating ratio as the percentage obtained by dividing total
13 operating expenses by operating revenues and that operating margin is determined by
14 dividing the net operating income for return by the total operating revenues of the utility.

15 **Q. WHY DO YOU REFER TO THIS APPROACH AS A VARIATION OF THE**
16 **OPERATING RATIO APPROACH?**

17 **A.** First, the Commission itself has previously noted in various Orders, including
18 Order Number 90-651, issued July 16, 1990 in Docket Number 89-602-W/S, its operating
19 margin calculation is the obverse calculation of operating ratio. Secondly, the regulatory,
20 finance, and accounting literature relating to public utilities does not recognize operating
21 margin as a ratemaking approach, but instead discusses operating ratio. Third, as
22 described in the literature, the operating ratio approach is defined as a process in which a

1 utility's revenue requirement is determined by dividing operating expenses by a target
2 operating ratio that the regulatory body deems necessary to permit the utility to generate
3 revenues adequate to cover operating expenses, depreciation, taxes and capital costs.

4 **Q. WOULD YOU PLEASE IDENTIFY THE LITERATURE YOU ARE REFERRING**
5 **TO?**

6 **A.** There are a number of works which refer to operating ratio as a ratemaking
7 approach. One such publication is *Accounting for Public Utilities* by Robert L. Hahne
8 and Gregory E. Aliff, which describes operating ratio methodology as being particularly
9 appropriate for application in the transportation industry because most of the equipment
10 employed in that industry is leased. In discussing application of the operating ratio
11 approach to water and wastewater utilities, at page 3-5 of this publication the authors
12 state:

13 Other examples of companies not having the attributes that are
14 conducive to rate base/rate of return measurements are found in the
15 water/wastewater industry. Although water/wastewater companies
16 are capital intensive, many situations exist in which customers
17 provide substantial portions of the capital funds in the form of
18 contributions in aid of construction. These customer-provided
19 funds are normally deducted from the rate base and often result in
20 **nominal (or even negative) rate base amounts.** If the capital that
21 investors supply is **relatively insignificant or even nonexistent,**
22 that capital does not provide an adequate foundation for using the
23 rate base/rate of return measure of service costs, and an alternative
24 measure, such as the operating ratio, is applied.

25
26 A copy of the portions of this publication to which I refer are attached in the Appendix to
27 my testimony. Another such publication is the course materials prepared by Dr. Janice
28 A. Beecher, then Director of Regulatory Studies for the Center for Urban Policy and the
29 Environment at Indiana University, for the NARUC Water Committee Eastern Utility

1 Rate School conducted in October of 1997. Dr. Beecher's materials recognize that the
2 operating ratio method is a "[m]odification of [t]raditional [r]egulation" that "is used for
3 smaller systems **with little or no rate base**". A copy of these course materials are also
4 included in the Appendix to my testimony. A third such publication is the Deloitte &
5 Touche *Public Utilities Manual, A Service for Public Utilities*, which simply identifies
6 the operating ratio methodology as one of three ratemaking methods traditionally
7 employed, with cost of service and debt service being the other two. Deloitte & Touche
8 notes that the operating ratio methodology is rarely used except in the transportation
9 industry and do not discuss it further in their publication. A copy of the portion of this
10 publication referencing operating ratio is also included in the Appendix to my testimony.

11 **Q. IS THE OPERATING MARGIN OR OPERATING RATIO APPROACH**
12 **UTILIZED BY ANY OF THE OTHER STATE REGULATORY BODIES WITH**
13 **JURISDICTION OVER OTHER SUBSIDIARIES OF UTILITIES, INC.?**

14 **A.** None of the Company's sister subsidiaries are regulated by a state utility
15 commission that employs the operating margin approach used by the Public Service
16 Commission of South Carolina. Only one state utility commission, the North Carolina
17 Utilities Commission, employs the operating ratio methodology to regulate our sister
18 subsidiaries. And, there, the policy is that the operating ratio approach is employed only
19 where it generates **more** revenue than does the rate of return on rate base approach. As I
20 mentioned earlier, the Company's sister subsidiaries operate in seventeen states.

21 **Q. WHAT CONCLUSIONS DO YOU DRAW FROM THE LITERATURE, MS.**
22 **GEORGIEV?**

1 **A.** It is clear from the literature that the rate of return methodology is the ratemaking
2 approach traditionally employed in the regulation of public utility rates and that the
3 operating ratio methodology is rarely used. Operating margin is not recognized as an
4 alternative. Moreover, in the case of water and sewer utilities, operating ratio is only
5 appropriate for use when a utility's rate base has been substantially reduced by CIAC.
6 Stated another way, where a water or sewer utility has no significant rate base, the rate of
7 return approach is not appropriate. Further, it is my understanding that the Supreme Court
8 of South Carolina has recognized that it is not appropriate to use operating methodology
9 with companies such as Southland.

10 **Q. COULD YOU PLEASE EXPLAIN THAT LAST STATEMENT?**

11 **A.** While I am not an attorney, it is my understanding that in Heater of Seabrook, Inc.
12 v. Public Service Com'n of South Carolina, 324 S.C. 56, 478 S.E.2d 826 (1996), the
13 Supreme Court held that the operating margin methodology is appropriate where a
14 utility's rate base has been substantially reduced by customer donations, tap fees, CIAC,
15 and book value in excess of investment. Further, the court found that operating margin is
16 less appropriate for utilities that have large rate bases and need to earn a rate of return
17 sufficient to obtain the necessary equity and debt capital that a larger utility needs for
18 sound operation.

19 **Q. HAS SOUTHLAND'S RATE BASE BEEN SUBSTANTIALLY REDUCED AS**
20 **CONTEMPLATED BY THE SUPREME COURT?**

1 **A.** No, it has not. In fact, Southland's total rate base makes up approximately 46%
2 of its gross plant in service. Its rate base has only been reduced 41% by depreciation and
3 CIAC.

4 **Q. WHAT HAS BEEN THE EXPERIENCE OF UTILITIES, INC. SUBSIDIARIES IN**
5 **OTHER STATES?**

6 **A.** Our experience has been that the only recognized alternative method to rate of
7 return on rate base regulation for water and sewer utilities is operating ratio and that it is
8 employed only in one state, for smaller companies that have little or no rate base, are
9 incapable of having a well-defined capital structure, have a cost of capital which cannot
10 be easily determined and which will benefit on the revenue side when the alternative is
11 employed.

12 **Q. DOES THE COMPANY FIT THE PROFILE OF A WATER OR WASTEWATER**
13 **UTILITY FOR WHICH THE OPERATING RATIO/OPERATING MARGIN**
14 **METHOD IS APPROPRIATE?**

15 **A.** Definitely not. The Company has a rate base in excess of \$150,000 of investor
16 provided capital which is substantial. Further, Southland's rate base has not been
17 substantially reduced and, therefore, operating margin methodology is not appropriate.
18 And, the Company's capital structure is well defined as can be gleaned from the
19 testimony of Company witness Ahern. Use of our parent's capital structure is in keeping
20 with generally accepted cost of capital analyses among regulatory bodies and has been
21 approved by this Commission in other cases including sister companies of Southland.
22 And, also as Ms. Ahern's testimony reflects, our cost of capital is easily determined.

1 **Q. IS RATE OF RETURN ON RATE BASE TREATMENT APPROPRIATE FOR**
2 **THE COMPANY?**

3 **A.** Absolutely. The Company has a substantial rate base and needs to earn a rate of
4 return that is sufficient to obtain the necessary equity and debt capital that a larger utility
5 needs for sound operation.

6 **Q. MS. GEORGIEV, DOES THE COMPANY SEEK TO INCLUDE ANY**
7 **PAYMENTS TO AFFILIATED ENTITIES?**

8 **A.** Yes. Included in the Company's test year expenses and included in capital
9 expenditures are payments to Bio-Tech, Inc. Bio-Tech is a South Carolina corporation
10 which, like Southland, is a wholly-owned subsidiary of Utilities, Inc. Bio-Tech's
11 business focuses on two primary services, one of which is sludge hauling and disposal
12 and the other being water and wastewater plant maintenance, repair and construction.
13 Because Southland only provides water services to its customers, all of the payments to
14 Bio-Tech are for water plant maintenance services.

15 **Q. DOES BIO-TECH PROVIDE SERVICES ONLY TO THE COMPANY AND**
16 **OTHER WHOLLY-OWNED SUBSIDIARIES OF UTILITIES, INC.?**

17 **A.** No. Bio-Tech also serves other public utilities and governmentally owned
18 utilities such as municipalities, counties, special purpose districts and public service
19 districts.

20 **Q. HOW ARE BIO-TECH'S CHARGES FOR SERVICES TO THE COMPANY**
21 **DETERMINED?**

22 **A.** Bio-Tech charges the Company the same rates it charges to any other similarly
23 situated customer whether it is affiliated with the Company or not – including

1 governmental customers. In other word, Bio-Tech's charges to Southland for water plant
2 maintenance, repair and construction are at market rates.

3 **Q. WOULD NOT THE EXPENSES ASSOCIATED WITH THE SERVICES**
4 **PROVIDED TO THE COMPANY BY WATER SERVICE CORPORATION**
5 **ALSO CONSTITUTE AFFILIATE PAYMENTS?**

6 **A.** No, they would not because there are no payments involved, only expense
7 allocations. As the Commission knows from the nearly thirty years worth of rate cases it
8 has considered involving the Company and other affiliates of Utilities, Inc., Water
9 Service Corporation, or WSC, is a wholly owned subsidiary of Utilities, Inc. that
10 provides management services to Southland and other operating subsidiaries in the
11 sixteen states where Utilities, Inc. has operations. WSC is captive in the sense that its
12 services, which include management, payroll, tax, accounting, procurement services, are
13 only provided to subsidiaries of Utilities, Inc. As the Commission's decisions through
14 the years accepting this arrangement reflect, it is cost efficient since it avoids duplication
15 of these services and functions for each operating subsidiary. This conclusion is tested in
16 each rate case by an audit of the allocations and the records of WSC.

17 **Q. DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?**

18 **A.** Yes, it does.